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FINANCIAL, BUDGETARY AND ADMINISTRATIVE MATTERS

UNDP FINANCIAL REGULATIONS

Matters on which consensus was not achieved at the thirty-ninth session

Report of the Administrator

SUMMARY

At its thirty-ninth session (1992), the Governing Council considered proposed financial regulation 4.6 and other matters on which consensus had not been achieved.

By its decision 92/40 of 26 May 1992, the Governing Council decided that the Budgetary and Finance Committee will consider, at its fortieth session (1993), proposed financial regulation 4.6 and the other matters on which consensus was not reached at the thirty-ninth session (1990).

As no new elements regarding this item have been introduced since the thirty-third session of the Council (1986), the Administrator is of the opinion that the substance of his note submitted to that session, contained in document DP/1986/63, and which is reproduced in the present document, will provide the Council with the basis for its consideration of this item at the current session. Should consensus be reached, appropriate modification to the proposed texts will be made.

Proposed Financial Regulation 4.6 (text A in the annex)

1. This text, which was proposed by a member of the Governing Council at its twenty-eighth session (1981), provides a definition of the term "readily usable" with respect to the currency of voluntary contributions. This definition provides that a voluntary contribution to UNDP shall be deemed readily usable if previous accumulations of contributions from the donor country amount to less than the contribution itself; the definition must be read in conjunction with the existing Financial Regulation 4.5, the text of which is as follows:

> "Voluntary contributions shall be made in currencies which are readily usable by UNDP, consistent with the need for efficiency and economy of operations, or convertible to the greatest possible extent into currencies readily usable by UNDP."

Subparagraph 8 (b) of decision 81/16 (text B in the annex)

2. This text also appears as paragraph 16 (b) of decision 80/30, "Preparations for the third programming cycle, 1982-1986". The words contained in round brackets in the text as shown in the annex reflect proposals put forward by two groups of members of the Governing Council; the two different versions of this subparagraph can be rendered as follows:

Version 1 In view of the multilateral nature of the Programme, non-recipient donor countries which make their voluntary contributions wholly or partly in non-convertible currencies shall pay a gradually increasing share of their contributions in convertible currencies so that their contributions will be fully convertible by the year 1985.

Version 2 In view of the multilateral nature of the Programme, non-recipient donor countries which make their voluntary contributions wholly or partly in their national non-convertible currencies are requested to pay, if possible, a gradually increasing share of their contributions in convertible currencies.

Subparagraph 8 (c) of decision 81/16 (text C in the annex)

3. This text also appears as paragraph 16 (c) of decision 80/30, "Preparations for the third programming cycle, 1982-1986". The words contained in round brackets in the text as shown in the annex reflect proposals put forward by different members of the Governing Council; two different versions of this subparagraph can be rendered as follows:

Version 1 Meanwhile, entities headquartered in a net donor country which has contributed in a non-convertible currency shall be reimbursed for services and equipment purchased under the Programme only in the currency of that country where such a currency is accumulated and until such accumulation is used; conversely, if, when utilizing a non-convertible contribution,

costs are incurred in other currencies, these shall be reimbursed to UNDP in the form of a convertible share of the non-convertible contributions.

Version 2 Meanwhile, entities headquartered in a net donor country which has contributed in a non-convertible currency shall be reimbursed for services and equipment purchased under the Programme in the currency in which the contribution is paid where such a currency is accumulated and until such accumulation is used.

These texts should be read in conjunction with the decision taken by the Council in February 1977, which reads as follows:

"Requested the Administrator to take the necessary steps to ensure that all payments for goods and services (including the provision of equipment, subcontracts, transport, etc.) rendered to all UNDP-financed projects by entities headquartered in countries whose currencies have been accumulated in UNDP are made exclusively in currencies in which their country contribution is paid to UNDP until these accumulations are used, and further requested the Administrator to make a detailed status report to the Governing Council as soon as possible but not later than the twenty-sixth session of the Council on (i) the measures he has taken to implement this request; and (ii) the problems, if any, he has encountered in its implementation." 1/

4. The Council is requested to consider whether agreement can be reached on the matters contained in these texts so that the UNDP Financial Regulations can be issued in final form. Any agreement reached regarding the matters covered by texts B and C would need to be reflected in appropriate financial regulations. It should also be noted that there should be no inconsistency between the conclusions which may be reached on these texts; for example, agreement on a text similar to version 1 of text B would remove the need for a definition as proposed in text A.

Notes

1/ Official Records of the Economic and Social Council, Sixty-third Session, Supplement No. 3 (E/5940, para. 58 (n)).

Annex

TEXTS ON WHICH CONSENSUS HAS NOT BEEN ACHIEVED

A. Proposed Financial Regulation 4.6:

[Regulation 4.6: A voluntary contribution to UNDP shall be deemed readily usable if previous accumulations of contributions from the donor country amount to less than the contribution itself.]

B. Subparagraph 8 (b) of decision 81/16:

[In view of the multilateral nature of the Programme, non-recipient donor countries which make their voluntary contributions wholly or partly in (their national) non-convertible currencies (shall pay) (are requested if possible to pay) a gradually increasing share of their contributions in convertible currencies (so that their contributions will be fully convertible by the year 1985)]

C. Subparagraph 8 (c) of decision 81/16:

[Meanwhile, entities headquartered in net donor countries which have contributed in non-convertible currencies where such currencies are accumulated and until such accumulations are used shall be reimbursed for services and equipment purchased under the Programme (only in the currency of that country) (in the currencies in which their contribution is paid): (conversely, if, when utilizing a non-convertible contribution, costs are incurred in other currencies, these shall be reimbursed to UNDP in the form of a convertible share of the non-convertible contributions)]

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FINANCIAL, BUDGETARY AND ADMINISTRATIVE MATTERS

Procurement from developing countries

Report of the Administrator

SUMMARY

The present report is submitted pursuant to Governing Council decision 91/48 of 21 June 1991. In particular, it provides: an overview of procurement from developing countries by the United Nations system; a summary of measures taken to date and improvements made in response to the various Governing Council decisions and General Assembly resolutions on this issue; an identification of some of the main continuing constraints and limitations preventing further procurement from developing countries. The report also presents the summarized related findings and recommendations of the Inter-Agency Procurement Working Group Meeting held in April 1993.

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I. INTRODUCTION

1. The present report is submitted pursuant to paragraphs 6 and 7 of Governing Council decision 91/48 of 21 June 1991 and paragraph 8 (e) of decision 92/2 of 14 February 1992.

2. It takes into account the following: a study undertaken by the Joint Inspection Unit (JIU) in 1989 on practices and procedures aimed at a more equitable geographical distribution of sources of procurement; a consultants report initiated jointly by the United Nations Development Programme (UNDP) and the former Office of the Director-General for Development and International Economic Cooperation; various inputs and reports provided to discussions on this issue for meetings of the Consultative Committee on Substantive Questions (Operational Activities) (CCSQ(OPS)) and Inter-Agency Procurement Working Group (IAPWG).

3. It should be noted that the term "procurement" used in the present report covers the procurement of equipment and the subcontracting of professional services irrespective of the country of origin. Separate additional data is provided in the statistical annex to the annual report of the Administrator for 1992 (DP/1993/10/Add.2), which includes information on additional input components, such as experts, fellowships, and United Nations Volunteers (UNV) specialists as called for by paragraph 5 of Governing Council decision 91/48.

II. PROCUREMENT OVERVIEW

4. As shown in table 1, the procurement of goods and services by the United Nations system from developing countries, from all sources of funding, has increased steadily over the last five years.

Table 1. United Nations system procurement from developing countries (all sources of funding)

	1988	1989	1990	1991	1992
Total value of procurement ($ millions)	203	278	320	556	734
Percentage of total procurement	22.2	27.6	28.2	31.6	29.3

5. In terms of the percentage of total procurement, the trend reflects a continuous growth until 1992. An analysis from the limited available data indicates that the large volume increase of total procurement by the United Nations system in 1992 as compared to 1991 (from $1,763 million to $2,510 million, i.e., $747 million) was likely largely due to increased procurement for emergency relief operations in 1992. Based on the historical experience that the largest portion of such types of procurement tend to be from the industrialized countries, this would account for the apparent tapering off, in percentage terms, of procurement from developing countries. In turn, this would suggest that procurement from developing countries for operational

activities alone, in percentage terms, has in fact continued to increase. A separate statistical report to be provided to the Governing Council at its fortieth session includes a detailed analysis and breakdown of the latest information provided by the United Nations specialized agencies.

6. This highlights the need to separate data relating to regular operational activities from that relating to emergencies and peace-keeping. This issue was discussed at the April 1993 IAPWG meeting and the Group recommended that, in line with the above, the Inter-Agency Procurement Services Office (IAPSO) should review the procurement statistics provided by the reporting agencies to improve their accuracy, clarity and relevance.

7. Nevertheless, the Administrator is pleased to be able to confirm to the Governing Council that procurement from developing countries under UNDP funding has continued to increase significantly, as indicated in table 2. It would appear that this is also attributable to the increase in national execution as well as additional delegation of authority by the Office for Project Services (OPS) to the field.

Table 2. Procurement from developing countries from UNDP-funded programmes and projects

	1988	1989	1990	1991	1992
Total value of procurement ($ millions)	78	78	77	91	103
Percentage of total procurement	26.6	28.6	30	35.7	40.2

8. Although product breakdown data is not currently being collected, it would seem from the general information available to IAPSO that there is an increasing trend, by the United Nations system, of procuring goods and services from developing countries that have a higher technology content, such as pumps, compressors and locally assembled computers, office equipment and vehicles. Improvements and expansions in the number of products manufactured locally at competitive prices would certainly have contributed to such a positive change.

III. MEASURES TAKEN AND IMPROVEMENTS MADE BY THE UNITED NATIONS SYSTEM TO INCREASE PROCUREMENT FROM DEVELOPING COUNTRIES

9. A number of measures have been taken over recent years by the United Nations system, including the activities undertaken by IAPSO in response to various Governing Council decisions, General Assembly resolutions and system-wide reports.

10. These measures have been documented and reported to the Governing Council on a regular basis. For recent reports see documents DP/1988/20, DP/1989/18, DP/1990/28 and DP/1991/53.

11. The United Nations system and IAPSO, in particular, have continued to develop and refine these mechanisms including the publications General Business Guide and Procurement Update. They have also been the subject of inter-agency discussion at the annual IAPWG meetings and have been endorsed by the United Nations system as being of importance in enabling and enhancing greater geographical participation. Further progress has been made in a number of other areas.

A. Common vendor database and the United Nations common coding system (UNCCS)

12. The identification of potential suppliers of goods and services in developing countries is instrumental in increasing procurement from these sources. A common database of vendors being used by the United Nations system has been established through close inter-agency collaboration, with each agency providing information on their procurement sources over the past three years. This database currently includes over 6,000 potential suppliers, of whom about one third are from developing countries. The April 1993 IAPWG meeting discussed ways and means by which this database could be made more useful and accessible to all, as well as be updated and maintained on a regular basis. IAPSO was asked to suggest ways to do this, including coordination with the United Nations Integrated Management Information Systems Project (IMIS).

13. To improve access to the common vendor database, IAPSO is establishing facilities for on-line access by the agencies as well as by developing countries, where existing telecommunication facilities permit. Copies of the database on diskette are also provided as required. While the common database originally included only companies providing goods, efforts are now under way to expand this, in close cooperation with the agencies, to include services as well. A close link will also be established with the TCDC (INRES) database to render it more comprehensive and complementary.

14. Each product in the common vendor database is identified by UNCCS, a system now adopted by most United Nations specialized agencies. UNCCS is also used at the field level to develop the country-specific catalogues, thereby rendering the data more compatible and facilitating easy access to information.

15. IAPWG requested IAPSO to continue discussions with agencies with a view to widening the use of UNCCS, with particular reference to professional services. Discussions are also under way with the IMIS project for the same purpose. The versatility of UNCCS has also attracted the interest of some national authorities (in particular Norway) for whom an extended version of UNCCS is being developed at their expense. The system has also been recommended to the European Community and close cooperation has already been established with the International Standards Organization (ISO).

B. Strengthening of national capabilities and enhancement of market knowledge

16. During the implementation of projects for the increased procurement from developing countries, major emphasis has been placed on training national

coordinators to recognize the importance of (a) supplier appraisal; (b) establishing a database; (c) procurement methods and procedures of the United Nations system; and (d) guiding local suppliers on how to do business with the United Nations system. Over the past four years, specific projects have been executed in Algeria, Argentina, Brazil, India, Indonesia, Kenya, Morocco, Nigeria, Tunisia, Turkey and Zimbabwe. This has resulted in the preparation of country-specific catalogues, circulated widely in the United Nations system, providing information on additional potential suppliers of goods and services. Similar projects in the Republic of Korea and Singapore are at various stages of implementation. In developing these catalogues for professional services, IAPSO is now also making use of the INRES-SOUTH database to obtain preliminary information and ensure full complementarity.

17. It is difficult to gauge the quantitative impact of these catalogues. However, IAPSO undertook an initial study based on a questionnaire sent to a representative sample of 425 registered potential suppliers listed in the catalogues. Approximately one half of the suppliers responded, 19 per cent of whom indicated that they had received inquiries or requests for proposals over the last year. This can be considered to be most positive and encouraging and validates the usefulness of the catalogues. To increase their utility, IAPWG agreed that more direct involvement by the various agencies in the preparation of the catalogues would be most useful and IAPSO is, therefore, incorporating this into its work plan.

18. In addition to country-specific catalogues, IAPSO has also prepared catalogues on specific common user items in collaboration with the major procurement agencies. Catalogues covering motor vehicles, motor cycles and office equipment and supplies have recently been prepared and widely circulated. It is worth noting that manufacturers of these items in developing countries have been included in these catalogues. For example, as a result of international bidding, three manufacturers from developing countries have been included in the standard specification and price-setting of motor vehicles, the procurement of which by the United Nations system is currently some $150 million annually. In the case of motor cycles, of which procurement by the United Nations system is currently around $15 million annually, five manufacturers from developing countries have been included.

C. Enhanced delegation of authority to the field

19. It is clear that increased delegation to the field and to project staff for purchasing inputs also facilitates increased procurement from developing countries. During the reporting period, UNDP increased such delegation from $20,000 to $30,000 and OPS has also delegated this authority to its Project Managers or, in their absence, to the Resident Representative, in line with recommendations of the External Auditors.

IV. CONSTRAINTS, LIMITATIONS AND FUTURE ACTION

20. Despite the important progress made, there are limitations on how much the United Nations system can achieve, by itself, to enhance procurement from developing countries. There are still many external constraints on the part of

developing countries themselves. These include: export, currency and other commercial constraints; legislative and regulatory barriers; limited competitiveness and cost-effectiveness of goods and services for the large volume items procured by the United Nations system, particularly relating to after-sales service, spare parts, uncertain delivery schedules and maintenance training; limited communications capacity; attitudinal barriers; and the increased trend of Official Development Assistance (ODA) towards greater earmarked funding.

21. With all this in mind, and given the need to distinguish clearly between procurement for normal technical cooperation activities and emergencies or peace-keeping operations, IAPWG was of the view that recipient Governments themselves will need to play a greater role over the coming years if much additional progress is to be made, at least in percentage terms.

22. Nevertheless, at its meeting in April 1993, IAPWG confirmed that every effort should continue to be made by the United Nations system to develop further and improve the existing mechanisms, including expanding the United Nations system's identification of additional sources of suppliers of goods and services in the developing countries, as well as enhancing their awareness of how to do business with the United Nations system.

23. In this connection, IAPWG endorsed the importance of the mechanisms described in the present report as well as the publications prepared by IAPSO, particularly the "General Business Guide". Furthermore, it discussed some draft guidelines reviewed earlier by CCSQ (OPS). It was agreed that these should be reviewed further by those responsible for procurement in the agencies so that it may be taken up at the next meeting of IAPWG, scheduled for 1994 in Finland. The only clear consensus on the draft guidelines emanating from the April 1993 meeting was the importance of the roster and shortlisting system of suppliers and the need to improve them.

24. The Administrator believes, therefore, that IAPSO should continue to enhance its service and its coordinating role for research and development and information-sharing activities. He recommends that IAPWG develop guidelines based on these measures, including the strengthening of focal points and the establishment of databases at the field and country level as well as training programmes for procurement staff.

25. However, in line with paragraphs 20 and 21 above, the Administrator wishes to bring to the notice of the Governing Council the need for caution in the expectations of significant further progress in the near future especially in percentage terms. The important partnership role of both host and donor Governments should not be undermined. Nevertheless, further progress can and will continue to be made, in pursuance of General Assembly resolution 47/199, to the extent that greater delegation of authority and decentralization of functions and processes is enabled, and with the increased use of national execution as the modality of preference.